

Message Text

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CINCPAC

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CINCPAC FOR POLAD

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SUBJ: U.S. GOALS AND OBJECTIVES IN SRI LANKA: OVERVIEW STATEMENT

REF: A. 77 STATE 291277, B. 77 COLOMBO 5071, C. STATE 56795

I. KEY POLICY ISSUES FACING THE U.S. IN SRI LANKA BEFORE 1980
THE ELECTION VICTORY WHICH BROUGHT IN THE UNITED NATIONAL
PARTY (UNP) GOVERNMENT UNDER THE LEADERSHIP OF J.R. YAEWARDENE
IN JULY 1977 PRESENTS THE U.S. WITH LIMITED OPPORTUNITIES TO
ACHIEVE THE GOALS AND OBJECTIVES IN REFERENCE B. THE PRESENT
GOVERNMENT OF SRI LANKA (GSL) IS ATTEMPTING TO BRING INTO
BETTER BALANCE ITS PREDECESSOR'S LEFT LEANING NON-ALIGNED FOR-
EIGN POLICY; IT HAS EXPRESSED A DESIRE FOR CLOSER BILATERAL
RELATIONSHIPS WITH THE U.S. WITH EMPHASIS ON INCREASED BILA-
TERAL ECONOMIC ASSISTANCE; IT HAS ANNOUNCED AN UNPRECEDENTED
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ECONOMIC DEVELOPMENT PROGRAM; AND WHIOE RETAINING THE CAP-
ABILITY TO PLAY A CONSTRUCTIVE ROLE IN THE NON-ALIGNED MOVE-
MENT, ITS INTENTIONS ARE CLEARLY LESS ACTIVITS.

U.S. ROLE

IN VIEW OF SRI LANKA'S ZIE, LIMITED RESOURCES AND DISTANCE
FROM THE CONTINENTAL UNITED STATES, AMERICAN ECONOMIC AND
STRATEGIC INTERESTS IN SRI LANKA ARE MODEST. ON THE OTHER

HAND, PRESIDENT CARTER'S STATED CONCERN FOR THE SUCCESS OF DEVELOPMENT UNDER DEMOCRATIC PRACTICES AND SRI LANKA'S UNUSUAL DEGREE OF SOCIAL DEVELOPMENT AS DEFINED BY THE CONGRESS GIVE THE SUCCESS OR FAILURE OF SRI LANKA'S DEVELOPMENT EFFORT MORE SIGNIFICANCE TO US THAN OUR OTHER INTERESTS WOULD SUGGEST.

EXTERNAL RESOURCES ARE IMPORTANT IF THE ECONOMY IS TO ADVANCE UNDER THE POLICIES AGREED TO WITH THE IMF. BUT MORE IMPORTANT WILL BE THE EFFECTIVENESS OF THE GOVERNMENT IN MANAGING THE SKILLED PERSONNEL AND ECONOMIC RESOURCES AT ITS DISPOSAL. THE OVER-RIDING RESPONSIBILITY, THEREFORE, LIES WITH THE GSL; AND WE WILL AVOID UNDERTAKING JOINT RESPONSIBILITY FOR WHAT MUST BE ESSENTIALLY THEIR OWN EFFORTS. AT THE SAME TIME, WE WANT TO BE AS HELPFUL AS IS APPROPRIATE WITHIN OVER-ALL AID AND USG POLICIES, AND IN AS TIMELY A FASHION AS FEASIBLE.

SUCCESS IN ITS EFFORTS AT PROMOTING SUCH DEVELOPMENT IS BY NO MEANS ASSURED. BUT WE DO NOT EXPECT WITHIN THE GIVEN TWO YEARS OF THIS PAPER GSL FAILURES OF SUCH DIMENSIONS AS TO SERIOUSLY IMPAIR ITS COMMITMENT TO DEMOCRATIC PRINCIPLES, HUMAN RIGHTS, AND THE FULFILLMENT OF BASIC HUMAN NEEDS. IF THESE DO APPEAR, OUR APPROACH SHOULD BE MODIFIED ACCORDINGLY.

II. PROJECTED DEVELOPMENTS: PENDING PROBLEMS

THE UNP GOVERNMENT ASSUMED OFFICE IN JULY 1977 NOT ONLY AS A RESULT OF THE TRADITION OF THE INCUMBENT ALWAYS LOSING BUT ALSO DUE TO ITS PROMISE TO UNDERTAKE POLITICAL AND ECONOMIC CHANGES TO MEET THE ASPIRATIONS OF THE ELECTORATE. BY THE
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TIME OF THE ELECTIONS THIS COUNTRY WAS BANKRUPT, OVER A MILLION PERSONS (MORE THAN 20 PERCENT OF THE WORK FORCE) WERE UNEMPLOYED. A LARGE NUMBER OF THE UNEMPLOYED WERE THE EDUCATED (BY LOCAL STANDARDS) YOUTH WHOSE COUNTERPARTS IN 1971 VENTED THEIR FRUSTRATIONS IN AN INSURGENT MOVEMENT. THE ECONOMY WAS STAGNANT; THE BUREAUCRACY WAS POLITICIZED, INEFFICIENT, CORRUPT AND NON-RESPONSIVE TO THE PUBLIC. TRADE UNION DISRUPTIONS WERE COMMONPLACE AND AGRICULTURAL PRODUCTION HAD DECLINED. THE INCREASING LEVEL OF INFLATION WAS SEVERELY AFFECTING THOSE WHO COULD LEAST AFFORD IT. THE FRUSTRATED ASPIRATIONS OF THE TAMIL MINORITY REMAINED IGNORED AND THE CALL FOR A SEPARATE STATE GAINED ADHERENTS.

THE UNPRECEDENTED SIZE OF J.R. JAYEWARDENE'S VICTORY WAS NOT ONLY A REFLECTION OF HIS PERSONAL APPEAL BUT ALSO AN EXPRESSION OF HOPE THAT A NEW GOVERNMENT COULD REVERSE THE DOWNWARD SPIRAL WITHIN THE COUNTRY. EXPECTATIONS WERE HIGH AND REGARDLESS OF WHAT GOVERNMENT CAME TO POWER WOULD HAVE BEEN DIFFICULT TO MEET.

THE INITIAL JULY-AUGUST 1977 FOCUS OF THE GOVERNMENT WAS DIRECTED TOWARDS SURVIVAL WHEN IMMEDIATELY FACED WITH POST ELECTION VIOLENCE, FOLLOWED BY COMMUNAL CLASHES THROUGHOUT THE ISLAND. IT SUCCESSFULLY MET THESE THREATS AND HAS SINCE

EMBARKED ON A SERIES OF PROGRAMS TO ACHIEVE ITS GOAL OF A "SOCIALIST DEMOCRACY," SHIFTING EMPHASIS FROM GOVERNMENT MANAGEMENT OF ALL ASPECTS OF THE ECONOMY TO OPENING FAR GREATER SCOPE TO THE ENTREPRENEURIAL SECTORS OF THE ECONOMY AND AN EASING OF RESTRICTIONS ON IMPORTS, ETC. WITH ITS ABSOLUTE MAJORITY IN PARLIAMENT (140 OF 168), THE UNP GOVERNMENT SHOULD BE A STRONG GOVERNMENT ABLE TO LEGISLATE WHATEVER IT BELIEVES NECESSARY TO CARRY OUT ITS PROGRAMS. THE PRINCIPAL OPPOSITION PARTY, THE TAMIL UNITED LIBERATION FRONT (TULF) IS SMALL (17 SEATS) AND FRAGMENTED. THE COMMUNIST AND TROTSKYITE PARTIES OF THE TRADITIONAL LEFT HAVE NOT RECOVERED FROM THE ELECTION WHICH RESULTED IN THEIR NOT EVEN WINNING ONE REPRESENTATIVE IN PARLIAMENT. THE FORMER GOVERNMENT, SRI LANKA FREEDOM PARTY HOLDS ONLY 9 SEATS. THE TRADE UNIONS STILL HAVE NOT ORGANIZED

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SUFFICIENT PUBLIC SUPPORT TO CHALLENGE THE GOVERNMENT'S PROGRAMS. HOWEVER, THE STRENGTH OF THE UNP GOVERNMENT AND WHAT- EVER CHANCE IT HAS TO REVERSE THE DOWNWARD TREND OF THE COUNTRY APPEARS TO BE CONCENTRATED IN THE PERSONAL LEADERSHIP OF PRESIDENT JAYEWARDENE, AND A HANDFUL OF CLOSE ASSOCIATES -- SOME LONGSTANDING POLITICAL ALLIES NOTED MAINLY FOR THEIR LOYALTY WHILE OTHERS ARE YOUNGER, GENUINELY TALENTED, AND HAVE ALREADY DEMONSTRATED MORE ENERGY AND BUREAUCRATIC DRIVE THAN HAS BEEN TYPICAL HERE IN THE RECENT PAST.

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PROPOSED SOLUTIONS

DURING THE FIRST SEVEN MONTHS OF THIS GOVERNMENT WE HAVE SEEN SIGNS THAT THE PRESIDENT INTENDS TO MAKE A VIGOROUS EFFORT TO MEET THE NEEDS OF THE COUNTRY. HIS STRATEGY FOR SUCCESS IS AN EMPHASIS ON AN ACCELERATED DEVELOPMENT PROGRAM AIMED AT DECREASING UNEMPLOYMENT, ATTEMPTING TO DEVELOP SELF-SUFFICIENCY IN FOOD PRODUCTION, INCREASING PRODUCTIVE INVESTMENT AND DECREASING SUBSIDIES. ACCOMPANYING THIS IS A SCHEME TO PROMOTE FOREIGN INVESTMENT BY ESTABLISHING A FREE TRADE ZONE (FTZ) NEAR COLOMBO, AND TO USE THE MAHAWELI GANGA RIVER VALLEY DEVELOPMENT AS A FOCUS OF NATIONAL EFFORT LEADING TO INCREASED EMPLOYMENT, SELF-SUFFICIENCY IN FOOD GRAINS AND MUCH ENHANCED AGRICULTURAL OUTPUT.

TO GAIN THE NECESSARY INTERNATIONAL FINANCING FOR ITS AMBITIOUS SCHEMES, THE GOVERNMENT HAS ACCEPTED IMF CONDITIONS WHICH POLITICALLY WILL BE DIFFICULT TO IMPLEMENT SUCCESSFULLY. THE DEVALUATION OF THE RUPEE, NEW TAX LAWS, REDUCTION OF SUB-SECRET

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SIDIES AND OTHER MEASURES, WHILE PROCLAIMED BY MANY AS NECESSARY, ARE NOT POPULAR AND THE GOVERNMENT HAS ALREADY HAD TO MODIFY SOME OF THESE MEASURES IN RESPONSE TO INTERNAL POLITICAL PRESSURES.

IT IS A MAJOR ACCOMPLISHMENT TO HAVE REMOVED HALF THE POPULATION FROM THE RICE RATION WITHOUT SERIOUS POLITICAL PROTESTS. THE SUCCESS OF THIS MOVE GIVES THE GOVERNMENT AND SENIOR CIVIL SERVANTS CONFIDENCE THAT OTHER NECESSARY MEASURES CAN BE SAFELY IMPLEMENTED IF WELL THOUGHT OUT AND WELL TIMED. THE PRESIDENT IS HOPEFUL OF SHARPLY REDUCING OTHER SUBSIDIES. A FEW PRIVATE INVESTORS HAVE ALREADY RESPONDED TO TAX INCENTIVES IN SUCH PRODUCTIVE UNDERTAKINGS AS FISHING VESSEL CONSTRUCTION.

AUTHORITATIVE THOUGH NOT YET AUTHORITARIAN

THE JAYEWARDENE ADMINISTRATION HAS TAKEN THE SIZE OF ITS ELECTION VICTORY AS A MANDATE TO BRING "DISCIPLINE" TO THE SOCIETY AND TO DO WHATEVER IS REQUIRED TO ACHIEVE RESULTS. IT HAS THEREFORE IMPLEMENTED MEASURES TO FORESTALL EFFORTS WHICH IT CONSIDERS WOULD DELAY IT FROM ACHIEVING ITS GOALS. IT HAS BANNED "POLITICALLY INSPIRED" STRIKES; OUTLAWED POLITICAL STREET DEMONSTRATIONS; REVAMPED THE POLICE; GIVEN MORE PROMINENCE TO THE MILITARY SERVICES; AND, THE PRESS HAS BEEN MADE TO FEEL THE NEED FOR SELF RESTRAINT IN CRITICISM OF THE GOVERNMENT. THERE IS A VIGOROUS EFFORT TO DEVELOP REVERENCE

TOWARDS THE STATE AND ITS LEADERS THROUGH A REVIVAL OF TRADITIONAL BUDDHIST RELIGIOUS CEREMONIES, MILITARY DISPLAYS AND SIMILAR EVENTS. THESE ARE DESCRIBED AS BEING NECESSARY TO BRING ABOUT NEEDED "DISCIPLINE" TO THE COUNTRY.

ALONG WITH SOME INITIAL SIGNS OF IMPROVEMENT, THERE REMAIN TRADITIONAL NEGATIVE PRACTICES. THE OLD LEADERSHIP OF THE UNP WHO WERE ASSOCIATED WITH ITS PRE-1970 FAILURES ARE AMPLY REPRESENTED IN THE PRESENT CABINET. THE POLITICAL SPOILS SYSTEM IS BEING VIGOROUSLY IMPLEMENTED. INEFFICIENT BUREAU-
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CRATS ARE BEING REPLACED BY MANY WHO ARE INDISTINGUISHABLE EXCEPT FOR POLITICAL AFFILIATION. HOWEVER, THIS IS TAKING PLACE UNDER A PRESIDENT WHO HAS IMPRESSED US AS BEING AN HONEST, DEDICATED LEADER WITH HIGH TALENT AND UNUSUAL VISION, AND A HANDFUL OF BRIGHT, COMPETENT ASSOCIATES. WHILE HE UNAVOIDABLY ENGAGES IN POLITICAL FENCE MENDING AND APPEASING LESS ENLIGHTENED STALWARTS WITHIN HIS OWN PARTY, WE REMAIN CONVINCED HE GENRALLY INTENDS TO MOVE HIS GOVERNMENT TO MEET THE NEEDS OF THE PEOPLE REGARDLESS OF POLITICAL COST. HIS EFFORTS TO INSULATE HIMSELF FROM THE BICKERING OF PARTISAN POLITICS, WHILE STILL MAINTAINING AUTHORITY, BY ELEVATING HIMSELF TO THE PRESIDENCY APPEAR TO BE PART OF THIS PROCESS.

III. EFFECT OF FOREGOING ON U.S. ACTIONS

ECONOMIC ASSISTANCE

THE KEY ISSUE WHICH WILL FACE THE U.S. IN SRI LANKA BEFORE 1980 IS THE EXTENT OF OUR WILLINGNESS TO SUPPORT THE NEW GOVERNMENT AND SHARE RESPONSIBILITY TO ACHIEVE ITS GOALS. EXPECTATIONS ON THEPART OF THE UNP GOVERNMENT FOR U.S. BILATERAL ECONOMIC ASSISTANCE ARE VERY HIGH AND HAVE BEEN HEIGHTENED IN THE EARLY STAGE OF THIS NEW GOVERNMENT. USAID COLOMBO BUDGET AND STAFF HAVE BEEN GREATLY EXPANDED (ALTHOUGH MANY PROJECTS WERE INITIATED UNDER THE PREVIOUS GOVERNMENT). MOST RECENTLY, THE GSL CASUALLY ASSUMED THAT THE U.S. WOULD PROVIDE AN ADDITIONAL 100,000 MT OF PL 480 FLOUR DESPITE EMBASSY WARNINGS THAT APPROVAL WAS NOT AUTOMATIC.

DOMESTIC POLITICAL IMPLICATIONS: ECONOMIC GROWTH AND HUMAN RIGHTS

THE UNP CONTINUES TO ENJOY A BREATHING SPACE BROUGHT ABOUT BY THE LOCAL ATTITUDE OF "GIVE THE GOVERNMENT A CHANCE". THIS WAITING PERIOD MIGHT NOT LAST THE FULL TWO YEARS COVERED BY THIS PAPER. IF THE ECONOMY CONTINUES TO FALTER AND RHETORIC IS NOT MATCHED BY RESULTS, THE THREAT TO THE GOVERNMENT WILL INCREASE FROM TRADE UNIONS, UNEMPLOYED YOUTH, A RESURRECTED LEFTIST OPPOSITION FEEDING ON DISILLUSIONMENT AND FRUSTRATIONS, BUSINESS AND OTHER SPECIAL INTEREST GROUPS. WE CONSIDER THAT
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COMMUNAL PRESSURES ARE PARTICULARLY LIKELY TO BECOME EXPLOSIVE IF VISIBLE EVIDENCE OF ECONOMIC ADVANCE AND EXPANDING OPPORTUNITIES DOES NOT BECOME APPARENT. THE USG WILL THEN COME UNDER GREAT PRESSURE TO PROVIDE ADDITIONAL ASSISTANCE LEST "THIS LAST CHANCE FOR DEMOCRACY IN SRI LANKA" FAILS.

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AT THE SAME TIME, WE ALSO ANTICIPATE THAT THE GOVERNMENT WILL BECOME MORE AUTHORITARIAN AND WILL NOT HESITATE TO USE THE INSTRUMENTS OF STATE POWER TO KEEP "TROUBLEMAKERS" UNDER CONTROL. THE USE OF THE POLICE AND MILITARY TO BRING ABOUT "DISCIPLINE" TO CONTROL OPPOSITION OR TRADE UNION PROTESTS IS A NEAR CERTAIN OPTION FOR THE GOVERNMENT. WE WOULD ALSO ANTICIPATE AN INCREASE IN THE THREAT POSED BY UNEMPLOYED YOUTH BEING INCREASINGLY ATTRACTED TO AN INSURGENT MOVEMENT. WHILE THIS GOVERNMENT HAS MADE OVERTURES TO MEET TAMIL MINORITY GRIEVANCES, IF TENSIONS ARE NOT FURTHER EASED BY THE TIME ECONOMIC PRESSURES SHOULD BECOME ACUTE, TAMIL COMPLAINTS MAY ALSO BE MET BY A TOUGHER GOVERNMENT STANCE. IF THE ABOVE EVENTS IN FACT TRANSPIRE, WE WILL THEN BE CONFRONTED WITH SEVERAL HUMAN RIGHTS ISSUES.

FOREIGN POLICY

WITH ITS CONCENTRATION ON INTERNAL ECONOMIC PROBLEMS,
THE GSL IS NOT NOW UNDERTAKING AN ACTIVE LEADING ROLE IN THE
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NON-ALIGNED MOVEMENT. THE GSL WILL NOT VIGOROUSLY ASSIST OR
HINDER U.S. INITIATIVES IN INTERNATIONAL ORGNIZATIONS. HOW-
EVER, WITH ITS GROWING DEPENDENCE ON INTERNATIONAL FINANCING,
AND INCREASED BILATERAL FOREIGN ASSISTANCE, IT CAN BE EX-
PECTED TO TAKE A SOMEWHAT MORE INTERESTED ROLE IN NORTH-SOUTH
ISSUES. IN LINE WITH THIS, THE MINISTRY OF FOREIGN AFFAIRS
PLANS TO ESTABLISH A POSITION OF DIRECTOR GENERAL FOR ECONOMIC
AFFAIRS IN ADDITION TO A DIRECTOR GENERAL FOR POLITICAL
AFFAIRS.

CONCLUSION

TO MEET THE SPECTRUM OF POSSIBLE DEVELOPMENTS OUTLINED
ABOVE, WE PROPOSE TO CONTINUE OUR CURRENT COURSES OF ACTION
TO MEET THE GOALS AND OBJECTIVES LISTED IN REFERENCE B. WE
WILL MAINTAIN OUR LOW-KEYED APPROACH OF GIVING ALL SRI LANKAN
REQUESTS FOR ECONOMIC ASSISTANCE CLOSE AND CAREFUL CON-
SIDERATION TO DEMONSTRATE OUR INTEREST, AND THAT WE WILL ASSIST
SRI LANKA'S DEVELOPMENT TO THE EXTENT FEASIBLE. THE PRESIDENT
HAS STATED OUR ECONOMIC ASSISTANCE IS APPRECIATED AND HE APPEARS
TO SHARE OUR DESIRE NOT TO BECOME TOO CLOSELY IDENTIFIED WITH
HIS GOVERNMENT EITHER AT HOME OR ABROAD.

VISITS BY U.S. OFFICIALS AND PRIVATE CITIZENS HAVE ALSO
BEEN HELPFUL IN DEMONSTRATING OUR INTEREST IN SRI LANKA. THE
MOST RECENT VISITS BY AMBASSADOR MARSHALL GREEN, THOMAS THORN-
TON (NSC), JAMES FARMER (CORE), AND JOHN SULLIVAN (AID) ARE
REPRESENTATIVE OF INDIVIDUALS WHO CAN ASSIST IN ACHIEVING
THIS OBJECTIVE.

ATTENDANCE BY AMBASSADOR CAROL LAISE, AS THE U.S. REPRE-
SENTATIVE AT THE FEBRUARY 4, 1978 INAUGURAL CEREMONIES OF
PRESIDENT JAYEWARDENE WAS ALSO VERY USEFUL TO US.

WE ARE RESPONDING TO MODEST U.S. BUSINESS COMMUNITY INTEREST
IN EXPANDING EXPORTS TO SRI LANKA AND INVESTMENT OPPORTUNITIES
RELATED TO THE ESTABLISHMENT OF THE FREE TRADE ZONE. BUSI-
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NESS OPPORTUNITIES MAY SLOWLY INCREASE FOLLOWING LIBERALIZATION
OF IMPORT AND FOREIGN EXCHANGE RESTRICTIONS, AND THE GSL'S
ANNOUNCED INTENTION OF ADOPTING ADEQUATE FOREIGN INVESTMENT
GUARANTEE LAWS AND OTHER MEASURES TO ENCOURAGE FOREIGN IN-
VESTMENT IN SRI LANKA.

GIVEN THE GSL'S MORE GENUINE NON-ALIGNED POSTURE, WE DO

NOT ANTICIPATE ANY CHANGE IN POLICY WHICH WOULD AFFECT CONTINUED ACCESS OF U.S. NAVY SHIP VISITS TO SRI LANKA AND THE PRESERVATION OF EXISTING VOA FACILITIES. WE DO NOT SEE THESE BEING RAISED AS QUID PRO QUO DURING FUTURE DISCUSSIONS OF U.S. BILATERAL ECONOMIC ASSISTANCE.

WE PLAN TO CONTINUE OUR INFORMATION, EDUCATION AND CULTURAL PROGRAMS AT THE PRESENT LEVEL AND DIRECTED AT KEY INDIVIDUALS. WE CONTINUE TO REVIEW THE IMPACT OF OUR PROGRAMS CONCENTRATED ON THIS TARGET AUDIENCE. WE BELIEVE OUR PROGRAMMED BY 1970 DEVELOPMENT EFFORT OF ABOUT \$25 MILLION IN LOANS AND GRANTS AND \$24 IN PL 480 COMMODITIES IS NEARING THE MAXIMUM LEVEL CONSISTENT WITH OUR STATED OBJECTIVES. FY 1980 LEVELS ARE BEING DISCUSSED WITH THE GSL. USIS AND USAID PROGRAMS IN SRI LANKA HAVE ALWAYS BEEN DESIGNED TO TAKE INTO ACCOUNT 1,000 YEAR OLD TAMIL-SINHALESE COMMUNAL FRICTIONS. WE EXPECT TO CONTINUE TO MAKE A MODEST CONTRIBUTION IN THIS DELICATE HUMAN RIGHTS AREA.

TO PROMOTE UNDERSTANDING OF U.S. INDIAN OCEAN POLICY, WE WILL CONTINUE TO REGULARLY BRIEF KEY MFA OFFICIALS. THE GSL NOW APPEARS TO WELCOME A U.S. MILITARY PRESENCE IN THE INDIAN OCEAN TO COUNTER BOTH THE SOVIET UNION AND INDIA.

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